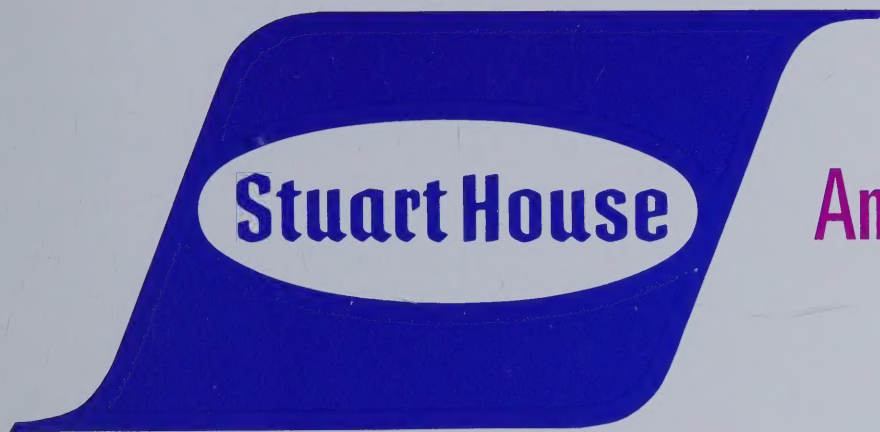




Annual Report 1975

STUART HOUSE INTERNATIONAL LIMITED

DIRECTORS

John Lyon Stuart	Executive
Howard Maitman	Executive
Bill Harding	Executive
Charlie Hoy	Executive
Tyrus Ebata	Executive
R. William Pearce	Executive

CHIEF EXECUTIVE OFFICERS

President	John Lyon Stuart
Vice-President — Sales Eastern Canada	Bill Harding
Vice-Président — Sales Western Canada	Charlie Hoy
Vice-President — Finance	Howard Maitman
Secretary	Tyrus Ebata

AUDITORS

Resnick, Wintraub & Co.	Toronto, Ontario
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BANKERS

The Royal Bank of Canada

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company, Toronto and Calgary

SUBSIDIARY COMPANIES

Stuart House Canada Limited	Weston, Ontario
Bradford-Penn Oil Limited	Toronto, Ontario
Stuart House Products Limited	Toronto, Ontario
Stuart House Products Inc.	Fort Myers, Florida
Burlington Packaging Limited	Burlington, Ontario
Romar Pet Supplies Limited	Willowdale, Ontario



Management Directors of Stuart House review the company's annual statement. From left to right are: Howard Maitman, John L. Stuart, Charles Hoy, Ty Ebata and Bill Harding.

Balance Sheet Highlights

	1973	1974	1975
Current Liabilities	\$ 2,802,700	\$ 1,624,500	\$ 1,374,100
Total Liabilities	3,393,700	2,124,500	1,374,100
Current Assets	3,132,000	2,169,700	1,876,700
Tangible Assets	3,490,600	2,374,900	2,046,900
Shareholders' Equity	457,800	582,900	907,200
Working Capital	329,300	544,600	502,100

Operating Highlights

	1973	1974	1975
Sales	\$12,244,400	\$13,066,500	\$15,284,500
Gross Profit	(69,500)	124,900	447,000
Profit before Extraordinary Items	(67,200)	60,800	202,600
Earnings Per Share	(11.2¢)	9.8¢	32.6¢
Net Profit including Extraordinary Items	(428,700)	125,300	338,200
Per Share including Extraordinary Items	(69.8¢)	20.1¢	54.4¢

PRESIDENT'S LETTER

TO OUR SHAREHOLDERS:

Your management group is very pleased with the results shown in the financial reports, and we sincerely hope that our shareholders will be just as happy as we are. Since the current management team took over in mid-1973, we have achieved all of the goals we set for ourselves at that time, and this success is reflected in the Financial Statements for the year ended February 28th, 1975.

The main goals which we set two years ago were:

1. to significantly reduce the company's outstanding liabilities;
2. to operate the company on a more profitable basis;
3. to increase sales in our profitable product lines.

In order to achieve these goals, we reorganized the management team, rationalized our product lines and strengthened operating and financial controls.

Management Organization and Controls

Five individuals now form the nucleus of your management team. As President and Chief Executive Officer, I provide overall direction in matters of corporate policy and strategy. Messrs. Bill Harding and Charles Hoy, as respective Vice-President of Sales for Eastern and Western Canada, have been able to devote their full attention to their individual sales territories. Working with over 30 sales representatives across the country, they have revitalized the sales force and adopted sales policies and tactics geared to specific regional conditions. This has resulted in a significant increase in our sales volume, even though several product lines were discontinued during the period.

On the administrative side, Mr. Howard Maitman, Vice-President, Finance, and Mr. Tyrus Ebata, Secretary-Treasurer, concentrated on the improvement and refinement of the company's accounting and reporting systems, inventory controls and cost controls. As a result, sharp reductions in inventory and administrative overhead were achieved in a period when sales increased sharply and inflation was rampant.

The management team is also concerned with the shareholders' interests because, as a group, we five individuals are now the largest shareholders in the Company, owning over 48%, and holding voting rights to over 56%, of the common shares.

Rationalization of Product Lines

To increase the net profit made in 1974, Stuart House continued to concentrate on the fields of business it knows best, namely the food, drug and confectionery markets. We completed the sale of subsidiary operations which were not in those industries and which were only marginally profitable or unprofitable. Since the nature of these operations required large inventories, and therefore a heavy financing load, their elimination was also a major factor in reducing our bank indebtedness and liabilities generally.

While putting our packaging and manufacturing operations on a firmer footing, we also increased our efforts to enlarge the number of companies for which we act as a sales agent across Canada. In that regard, we acquired the Canadian distribution rights for the products of two companies which we did not represent last year.

Review of 1975 Results

Our financial and operating results for the last three years are highlighted on the opposite page. While they clearly reflect the results of our efforts over the last two years, there are several items I'd like to comment on specifically.

Although Working Capital showed a slight decrease this year, this was because we were able to repurchase and cancel the long term debenture which had been outstanding since December, 1972. You will note a Gain on Redemption of Debenture of \$32,916. Of the \$490,256 shown for Bank Indebtedness, only \$150,000 was a bank loan on which interest was payable as incoming cash receipts covered the balance of \$340,256. Since 1973, with the reductions in Bank Loans, we have reduced the interest-bearing debt from \$1,881,000 to \$150,000. *debt*

The reduction in Tangible Assets was the result of a 58% reduction in Inventory from \$2,250,500 in 1973 to \$951,600 in 1975. Our "Quick Assets" — Accounts and Notes Receivable and Prepaid Expenses — increased from \$881,500 to \$925,100 over the same period.

Stuart House Sales increased by 17% in 1975 and by 25% since 1973. However, our true sales performance is actually better than these figures indicate since, in the last two years, we have discontinued product lines which contributed over \$2,000,000 in sales in 1973.

In 1973, \$273,100 of Extraordinary Charges were caused by the writing-off or reversal of such assets as Goodwill and Deferred Income Taxes. In 1975, we completed the refinement of our balance sheet by writing off the Stock Issue Expense. Your management is now confident that the remaining amount under Excess of Cost of Investment in Subsidiaries represents a realistic, and perhaps conservative, valuation of those investments.

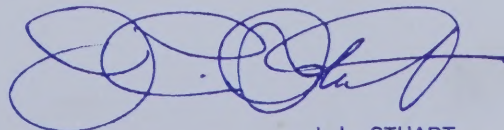
The Coming Year

For the coming year, we see intensified competition in some markets and a slackening in demand for a few product lines. It will be a more difficult year in which to maintain sales and profits growth rates but, because of our diversified product mix, and barring a further deterioration in the economy, your management is confident that Stuart House will show continued improvement in 1975-1976.

In closing, we would like to pay tribute to the founder of the Company, Mr. John Stuart Sr. Since the year end, Mr. Stuart has decided not to seek re-election to the Board of Directors. In recognition of his more than 35 years of service to the Company, your Board has made Mr. Stuart Honorary Chairman of the Board, and is re-negotiating the Consulting Agreement with Stuart (Nassau) Limited so that we can continue to avail ourselves of his experience in sales and marketing.

We would also like to thank all of our employees for their hard work and real interest in the Company's success. It is mainly due to them that we have been able to achieve our goals.

On behalf of the Board,



J. L. STUART,
President.

Toronto, June 3, 1975.

CONSOLIDATED STATEMENT OF OPERATIONS

FOR THE YEAR ENDED FEBRUARY 28, 1975

(with comparative figures for 1974)

	1975	1974
Sales		
Warehouse sales	\$ 9,060,701	\$ 9,125,320
Commission sales	6,223,772	3,941,214
	<u>\$15,284,473</u>	<u>\$13,066,534</u>
Gross margin on warehouse sales (after depreciation of \$37,376 in 1975 and \$41,008 in 1974)	\$ 2,548,588	\$ 2,481,835
Commission income	381,542	305,437
	<u>2,930,130</u>	<u>2,787,272</u>
Selling and administrative expenses	2,483,128	2,662,361
	<u>447,002</u>	<u>124,911</u>
Income taxes	238,102	64,500
	<u>208,900</u>	<u>60,411</u>
Minority interest-share of profit (loss) of a subsidiary	6,275	(343)
Profit before extraordinary items	<u>202,625</u>	<u>60,754</u>
Extraordinary items (Note 10)	135,574	64,500
Net profit for the year	<u>\$ 338,199</u>	<u>\$ 125,254</u>
Earnings per share:		
Before extraordinary items	32.6¢	9.8¢
Extraordinary items	21.8	10.3
Net profit for the year	<u>54.4¢</u>	<u>20.1¢</u>

CONSOLIDATED STATEMENT OF DEFICIT

FOR THE YEAR ENDED FEBRUARY 28, 1975

(with comparative figures for 1974)

	1975	1974
Deficit, beginning of year	\$ 571,116	\$ 694,896
Net profit for the year	338,199	125,254
	<u>232,917</u>	<u>569,642</u>
Dividends paid on preferred shares	1,474	1,474
Write-off of stock issue expense	17,500	—
	<u>18,974</u>	<u>1,474</u>
	<u>251,891</u>	<u>571,116</u>
Increase in cash surrender value of life insurance in excess of premiums paid	5,069	—
Deficit, end of year	<u>\$ 246,822</u>	<u>\$ 571,116</u>

(See accompanying notes to financial statements)

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED FEBRUARY 28, 1975

(with comparative figures for 1974)

	1975	1974
Source of funds		
Net profit for the year	\$ 338,199	\$ 125,254
Add: Items not requiring outlay of funds		
Depreciation	37,376	41,008
Loss on disposal of fixed assets	336	7,226
Amortization of debenture discount	2,500	2,500
	<u>378,411</u>	<u>175,988</u>
Proceeds from disposal of fixed assets	23,135	135,371
Reduction of notes receivable	6,262	—
Recovery of goodwill	51,707	25,000
Increase (decrease) in minority interest	6,275	(343)
Stock issue expense written-off	17,500	—
Unamortized debenture discount written-off	19,584	—
Increase in cash surrender value over premium paid	5,069	—
Sales of shares under stock option and purchase plans	—	1,335
Other assets	—	1,297
	<u>507,943</u>	<u>338,648</u>
Use of funds		
Repurchase of debenture	500,000	—
Purchase of fixed assets	21,018	20,855
Stock issue expense written-off	17,500	—
Increase in cash surrender value of life insurance	10,531	3,710
Dividends paid on preferred shares	1,474	1,474
Increase in notes receivable	—	6,262
Reduction under special credit agreement	—	91,052
	<u>550,523</u>	<u>123,353</u>
Increase (decrease) in working capital	(42,580)	215,295
Working capital, beginning of year	544,644	329,349
Working capital, end of year	\$ 502,064	\$ 544,644

(See accompanying notes to financial statements)

STUART HOUSE INT

(Incorporated under the laws of the State of New York)

CONSOLIDATED BALANCE SHEET

(with comparative figures for 1974)

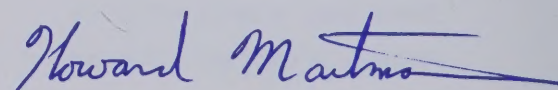
ASSETS

	1975	1974
Current assets		
Accounts receivable (Note 4)	\$ 792,978	\$ 726,565
Notes receivable	117,919	29,835
Inventories, at lower of cost or net realizable value	951,647	1,383,197
Prepaid expenses	14,201	30,086
	<u>1,876,745</u>	<u>2,169,683</u>
Investments		
Shares, at cost	1,296	1,296
Note receivable, less current portion	—	6,262
Cash surrender value of life insurance (Note 9)	35,521	24,990
	<u>36,817</u>	<u>32,548</u>
Fixed assets		
Land, building, machinery and equipment (Note 2)	<u>133,360</u>	<u>173,189</u>
Other assets		
Stock issue expense, at cost	—	17,500
Unamortized debenture discount	—	22,084
Excess of cost of investments in subsidiaries over net book value at acquisition (Note 1)	264,009	315,716
	<u>264,009</u>	<u>355,300</u>
	<u><u>\$2,310,931</u></u>	<u><u>\$2,730,720</u></u>

Approved on behalf of the Board:



Director



Director

AUDITORS' REPORT
To the Shareholders of
Stuart House International Limited

We have examined the consolidated balance sheet of Stuart House International Limited as at February 28, 1975 and the consolidated statements of operations, deficit and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

INTERNATIONAL LIMITED

(Incorporated under the Laws of Canada)

SHEET FEBRUARY 28, 1975

(at February 28, 1974)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1975	1974
Current liabilities		
Bank indebtedness (Note 4)	\$ 490,256	\$ 632,435
Income taxes payable	158,202	—
Accounts payable and accrued liabilities	725,688	992,069
	<u>1,374,146</u>	<u>1,624,504</u>
Long-term liabilities		
9% debenture due 1982	—	500,000
Minority interest in subsidiary	<u>29,587</u>	<u>23,312</u>
Shareholders' equity		
Capital Stock		
Authorized		
100,000 Preferred shares of \$8.00 par value each issuable in series		
1,000,000 Common shares without par value		
Issued		
3,070 6% cumulative redeemable convertible preferred shares, Series A	24,560	24,560
621,610 Common shares	<u>1,072,580</u>	<u>1,072,580</u>
	<u>1,097,140</u>	<u>1,097,140</u>
Capital surplus	56,880	56,880
Deficit	<u>(246,822)</u>	<u>(571,116)</u>
	<u>907,198</u>	<u>582,904</u>
	<u>\$2,310,931</u>	<u>\$2,730,720</u>

(See accompanying notes to financial statements)

In our opinion these financial statements present fairly the consolidated financial position of the companies as at February 28, 1975 and the results of their operations and changes in financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with the preceding year.

Resnick, Wintraub & Co.

Chartered Accountants,
Toronto, Ontario, May 6, 1975.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FEBRUARY 28, 1975

1. SUBSIDIARY COMPANIES

The accompanying financial statements consolidated the accounts of the company and all of its subsidiaries:

	<u>Ownership of Voting Stock</u>
Stuart House Canada Limited	100.0%
Romar Pet Supplies Limited	100.0%
Stuart House Products Limited (non-operating)	100.0%
Stuart House Products Inc. (non-operating)	100.0%
Bradford-Penn Oil Limited (non-operating)	100.0%
Burlington Packaging Limited	92.3%

During the year the company sold the assets of one of the divisions of Stuart House Canada Limited.

Details of excess of cost of investments in subsidiaries over net book value at acquisition:

Romar Pet Supplies Limited	\$ 245,838
West Taylor Bickle & Co. Ltd.	18,171
	<u>\$ 264,009</u>

2. FIXED ASSETS

The major categories of fixed assets at February 28, 1975 are as follows:

	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>	<u>Rates</u>
Buildings	\$ 32,817	\$ 27,411	\$ 5,406	5%
Machinery and equipment	540,085	462,551	77,534	20%
Vehicles	43,116	28,736	14,380	30%
Leasehold improvements	113,880	79,240	34,640	
	729,898	597,938	131,960	
Land	1,400		1,400	
	<u>\$ 731,298</u>	<u>\$ 597,938</u>	<u>\$ 133,360</u>	

Straight line depreciation is written on leasehold improvements over the terms of the leases, and the diminishing balance method is applied to the other depreciable assets at the rates shown above.

3. INCOME TAXES

Certain of the subsidiary companies have incurred losses in prior years which are available, for income tax purposes, as a deduction from future profits. At February 28, 1975 the potential future income tax reductions related to these losses amounted to approximately \$27,000.

4. BANK INDEBTEDNESS

The accounts receivable and inventories have been specifically pledged as security for the bank borrowings. In addition a 7¾% floating charge debenture has been issued to the bank.

5. CAPITAL STOCK

Under the company's revised stock option plan dated November 16, 1970, 13,450 common shares have been reserved for issue under options granted from time to time to certain officers and senior

employees of the company up to a maximum of 3,000 shares each. The optionee has a cumulative right to exercise his option as to 20% of the optioned shares in each year of continuous employment with the company from the date his option is granted; no option may have a term exceeding five years. At February 28, 1975 options were outstanding for the purchase of 12,000 common shares at an exercise price of \$2.55 which was 85% of the market price when the options were granted.

Under the company's employee stock purchase plan a total of 15,790 common shares may be purchased in September each year in lots of ten at the current market price, and payment may be spread over three years.

6. LEASE AND OTHER COMMITMENTS

The company has signed an agreement with a shareholder, Stuart (Nassau) Limited, for Nassau to provide it with consulting and advisory services at a rate of \$30,000 per annum. This agreement expires February 28, 1982.

The company and its subsidiaries are committed to annual rentals under leases as follows: 1975-1977, \$119,268; 1978-1979, \$90,468; 1980, \$50,458; 1981-1991, \$32,968.

7. DIRECTORS' REMUNERATION

The aggregate remuneration (none of which was to the directors as such) charged to consolidated earnings for the year ended February 28, 1975 in respect of seven directors (six of whom were also officers) was \$183,286 all of which was paid by Stuart House Canada Limited.

8. CONTINGENT LIABILITIES

(a) The company is contingently liable on a mortgage liability of Stuart (Nassau) Limited. At February 28, 1975 the principal outstanding on the 5½% mortgage was approximately \$105,000. Management is satisfied that there is adequate security to cover the mortgage.

(b) There is a federal sales tax assessment outstanding against the company for approximately \$17,000 for the last four months of the 1974 year-end. The assessment has been appealed, but if the appeal is lost, the company may become liable for approximately \$65,000 in federal sales tax for the current year.

9. CASH SURRENDER VALUE OF LIFE INSURANCE

Cash surrender value of life insurance is stated net of loans of \$119,189 (1974 — \$120,389).

10. EXTRAORDINARY ITEMS

	1975	1974
Gain on redemption of debenture	\$ 32,916	\$ —
Recovery of goodwill on sale of a division of a subsidiary, Stuart House Canada Limited	25,658	—
Income tax reductions realized due to prior year's losses carry-forward	77,000	64,500
	<u>\$ 135,574</u>	<u>\$ 64,500</u>

11. COMPARATIVE FIGURES

Certain figures on the 1974 comparative figures have been restated to conform with the statement presentation adopted in 1975.

SUBSIDIARY COMPANIES

The main operating subsidiary of Stuart House International Limited is Stuart House Canada Limited which is primarily a sales and distribution company. This company markets Stuart House products to Food, Drug and Confectionery stores across Canada. Primarily, now, we sell to wholesalers and retail chains in these businesses. Stuart House Canada Limited has sales offices in Vancouver, Winnipeg, Montreal and Halifax in addition to our head office in Toronto, with over 30 salesmen working out of those offices.

Originally, Stuart House Canada acted as a sales agent only for other companies. However, over the years, we have developed or acquired several product lines that we manufacture or package ourselves. Our first product was Stuart House Foil Wrap, aluminum foil on a roll for use in the home. This was followed by a whole range of related household products in aluminum foil and paper: **Stuart House Pie Plates, Burner Savers, Baking Cups** and **Stuart House Shelf Paper** and **Freezer Paper**. All of these products are packaged in our plant in Weston, Ontario, and sold by us across Canada.

In the same plant, we manufacture **Stuart House Soup Mixes** — Chicken Noodle, Onion and Garden Vegetable. In recent years, we developed **DRY FRY**, a vegetable cooking oil in aerosol form. Through West, Taylor, Bickle, a division of Stuart House Canada, we manufacture household brooms which are also sold across Canada under various brand names.

In 1972, we acquired Romar Pet Supplies Limited and its **Romar 90 Dog and Cat Food**. This is one of the leading canned pet foods in Ontario and we plan to expand its distribution to other markets through Stuart House Canada Limited's sales facilities. Burlington Packaging Limited's main business, now, is also Romar Pet Food.

Stuart House Products Inc., Stuart House Products Limited, and Bradford-Penn Oil Limited are inactive companies.

As a Sales Agent, Stuart House Canada Limited is able to offer a full range of marketing facilities to the principal companies we represent. In some cases, we buy and sell for our own account, handling all of the credit, warehousing and shipping and advertising. Sales of these products are included in our accounts under Warehouse Sales. In other cases, we solicit the order and turn it over to the manufacturer who ships and invoices it, and pays us a commission of a percentage of the net invoice value. These are listed under our Consolidated Statement of Operations as Commission Sales and the actual commission received is shown as Commission Income.

In addition to the goods which we manufacture and sell under the Stuart House label, we are proud to represent the following companies as Sales Agents for their products in all or part of Canada.

Barnes-Hind Pharmaceuticals,
Sunnyvale, California.

BARNES-HIND SOLUTIONS, ETC.,
FOR CONTACT LENSES

W. T. Hawkins Limited,
Belleville, Ontario.

CHEEZIES, MAGIC-POP POPPING CORN

LePage's Limited,
Toronto, Ontario.

GLUES AND ADHESIVES

Lewis-Howe Company Limited,
Windsor, Ontario.

TUMS AND NATURE'S REMEDY

Matlow Bros. Limited,
Swizzels Limited,
New Mills, England.

IMPORTED ENGLISH CONFECTIONERY

Plough (Canada) Limited,
Malton, Ontario.

COPPERTONE SUN TAN PRODUCTS,
ASPERGUM, ANSODENT, FEEN-A-MINT, ETC.

Polymer International (N.S.) Limited,
Truro, Nova Scotia.

PLASTIC GARBAGE BAGS

Ray-O-Vac Division,
ESB Canada Limited,
Winnipeg, Manitoba.

ELECTRIC STORAGE BATTERIES

Romar Pet Supplies Limited,
Weston, Ontario.

ROMAR 90 DOG & CAT FOOD

Lentheric - Morny,
Toronto, Canada.

TWEED PERFUMES, MORNY SOAPS

Primo Importing & Dist. Co.
Montreal, Quebec.

PRIMO SPAGHETTI, ETC.



In May, 1975, Stuart House Canada Limited moved into its new office and 25,000 square-foot warehouse facility in Weston, Ontario.

Sony mix
aluminum foil, freeze wrap
per

- pet food.

Stuart House International Limited
22 Lido Road, Weston, Ontario, Canada M9M 1M6